



## **DEPARTMENT OF AGRICULTURE**

### **Agricultural Marketing Service**

#### **7 CFR Part 868**

**[Doc. No. AMS-FGIS-18-0088]**

**RIN 0581-AD85**

### **Fees for Rice Inspection Services and Removal of Specific Fee References**

**AGENCY:** Agricultural Marketing Service, USDA.

**ACTION:** Proposed rule.

**SUMMARY:** The Agricultural Marketing Service (AMS) invites comments on a proposal to reduce the fees for the sampling, inspection, weighing, and certification of rice performed under authority of the Agricultural Marketing Act of 1946 (AMA), as amended. Under the proposal, fees would decrease by 20 percent for fiscal year (FY) 2020 and by another 20 percent for FY 2021. The proposed changes are necessary to lower the balance in the program's operating reserve to a level adequate to cover three to six months' expenses. AMS is also proposing to adopt standardized AMS user-fee calculations used in other AMS programs for rice inspection services beginning in FY 2022.

**DATES:** Comments must be received on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

**ADDRESSES:** Interested persons are invited to submit written comments concerning this proposed rule. All comments must be submitted through the Federal e-rulemaking portal at <http://www.regulations.gov> and should reference the document number and the date and page number of this issue of the **Federal Register**. All comments submitted in

response to this proposed rule will be included in the record and will be made available to the public. Please be advised that the identity of the individuals or entities submitting comments will be made public on the internet at the address provided above.

**FOR FURTHER INFORMATION CONTACT:** Denise Ruggles, FGIS Executive Program Analyst, AMS, USDA; Telephone: (816) 659-8406; Email: Denise.M.Ruggles@usda.gov.

**SUPPLEMENTARY INFORMATION:** The AMA (7 U.S.C. 1621 – 1638) authorizes the Federal Grain Inspection Service (FGIS) to provide official inspection and weighing services – on a user-fee basis – for rice (7 U.S.C. 1622(h)). FGIS, formerly part of the Grain Inspection and Packers and Stockyards Administration (GIPSA), is now part of AMS, due to a recent merger of the two agencies. Section 203(h) of the AMA provides for the assessment and collection of reasonable fees from the users of the services to cover, as nearly as practicable, the costs of the services rendered. The fees reflect direct and indirect costs of providing services. Direct costs include employee salaries and benefits and certain operating expenses, such as travel. Indirect overhead costs include expenses related to FGIS and AMS activities supporting the services provided to the industry, including administrative and supervisory expenses, rent, communication, utilities, contractual services, supplies, and equipment. The formula used to calculate the fee rates also includes the cost of building and maintaining an operating reserve, as required by AMS. Reserves are held to meet financial obligations in case of program closure or other unexpected events.

The fees for rice inspection services were last revised in 2007 (72 FR 1931). The fee schedule at 7 CFR 868.91 provides for fee increases at set intervals, the most recent

taking effect in October 2010 for the 2011 fiscal year and beyond. Although fees have not increased since then, the current fee structure has generated a recurring annual operating surplus for several years, resulting in an estimated reserve balance at the end of FY 2019 that would cover 21 months of rice inspection program expenses, exceeding AMS’s target of maintaining funds to cover 3 to 6 months’ expenses. Estimated monthly costs to operate the rice inspection program in FY 2019 are \$457,000. Thus, AMS would consider an operating reserve of between \$1.37 million and \$2.74 million (3 and 6 times the monthly operating cost, respectively) at the end of FY 2019 to be appropriate.

Financial data for the rice inspection program for fiscal years 2015 through 2019 is reviewed in Table 1.

**Table 1: Rice Program Financial Analysis**  
(Millions of Dollars)\*

	FY 15	FY 16	FY 17	FY 18	FY 19**
Revenue	\$6.93	\$5.79	\$5.84	\$5.50	\$5.49
Obligations	\$5.13	\$5.36	\$5.44	\$5.39	\$5.48
Annual Surplus or (Deficit)	\$1.80	\$0.43	\$0.40	\$0.11	\$0.01
Operating Reserve – running balance	\$8.45	\$8.88	\$9.28	\$9.38	\$9.39

\*Figures may not sum due to rounding and adjustments of prior year obligations.

\*\*FY 2019 values are projections.

As illustrated by Table 1, even though revenues have generally declined due to varying requests for service and increased efficiencies, and obligations have generally increased over the last five years due to inflation and costs of living adjustments, year-after-year surpluses have continued to increase. The result is an operating reserve running balance exceeding the range AMS deems appropriate.

AMS proposes to address the surplus by reducing fees for rice inspection services by 20 percent across the board for FY 2020 and by another 20 percent for FY 2021.

AMS expects that reducing fees in the proposed manner would gradually reduce the

balance in the reserve fund while also allowing FGIS to continue making strategic operational expenditures to meet industry expectations and achieve United States Department of Agriculture (USDA) goals.

The rates proposed in this rule are for Federal inspection services only. Third-party inspection service providers establish their rates independently.

Proposed fees for fiscal years 2020 and 2021 are shown in Tables 2 and 3 below:

**Table 2: Hourly Rates/Unit Rate per CWT**

Service <sup>1</sup>	Regular workday (Monday – Saturday)	Nonregular workday (Sunday and Holiday)
<b>FY 2020</b>		
Contract (per hour per Service representative)	\$49.40	\$68.50
Noncontract (per hour per Service representative)	\$60.20	\$82.90
Export Port Services (per hundredweight) <sup>2</sup>	\$0.059	
<b>FY 2021</b>		
Contract (per hour per Service representative)	\$39.50	\$54.80
Noncontract (per hour per Service representative)	\$48.20	\$66.30
Export Port Services (per hundredweight) <sup>2</sup>	\$0.047	

**Table 3: Unit Rates Service<sup>3</sup>**

Inspection for quality (per lot, subplot, or sample inspection):	FY 2020	FY 2021
(a) Rough rice	\$37.80	\$30.20
(b) Brown rice for processing	\$32.50	\$26.00
(c) Milled rice	\$23.40	\$18.70
Factor analysis for any single factor (per factor)		
(a) Milling yield (per sample) (Rough or Brown rice)	\$29.30	\$23.40

<sup>1</sup> Original and appeal inspection services include: Sampling, grading, weighing, and other services requested by the applicant when performed at the applicant's facility.

<sup>2</sup> Services performed at export port locations on lots at rest.

<sup>3</sup> Fees apply to determinations (original or appeals) for kind, class, grade, factor analysis, equal to type, milling yield, or any other quality designation as defined in the U.S. Standards for Rice or applicable instructions, whether performed singly or in combination at other than the applicant's facility.

(b) All other factors (per factor) (all rice)	\$14.10	\$11.30
Total free and fatty acid	\$45.80	\$36.60
Stowage Examination (service-on-request)		
(a) Ship (per stowage space) (minimum 5 spaces per ship)	\$40.40	\$32.30
(b) Subsequent ship examination (same as original) (minimum 3 spaces per ship)	\$40.40	\$32.30
(c) Barge (per examination)	\$32.40	\$25.90
(d) All other carriers (per examination)	\$12.40	\$9.90

For FY 2022 and beyond, AMS proposes to determine rice inspection service fees by adopting the standardized formulas AMS has established for calculating user fees for Cotton, Dairy, Fruits and Vegetables, Meat and Livestock, Poultry, Science and Technology, and Tobacco. Established in 2014 (79 FR 67313), the standardized method enables AMS to use current information about resource needs and projected costs of providing services to update rates for services on an annual basis, thus better avoiding unexpected financial shortfalls or unintended reserve surpluses. AMS announces the fees pertaining to all the AMS inspection-related services for the coming year annually through a notice in the FEDERAL REGISTER by the preceding June 1. AMS posts the fees on the Agency's website for customer reference during the year. AMS believes that this proposed action for rice would help FGIS adjust the rice inspection reserve account as necessary and provide its customers with information they need for planning purposes. Once the reserve balance has reached an appropriate level, AMS anticipates that the standardized formula for fee rates will appropriately account for increases in the actual costs of providing inspection services.

Currently, 7 CFR 868.91 – Fees for certain Federal rice inspection services – provides the fees for rice inspections. Section 868.91 lists the fees in two tables: hourly rates or per unit rates per hundredweight for contract and noncontract services, and unit

rates for inspecting, analyzing, or providing other related services. The tables give annual rates effective in 2007, 2008, 2009, and 2010. The current rates have not been adjusted since October 1, 2010. AMS proposes to remove the two tables from § 868.91 for FY 2020. AMS proposes to publish instead reduced fees – as described in Tables 2 and Table 3 above – on the AMS website for FY 2020 and FY 2021.

For FY 2022 and beyond, AMS proposes to add a new § 868.91(b) specifying the formulas for calculating rice inspection fees on an annual basis. As with other programs, AMS would perform financial analyses each year to determine whether the current fees are adequate to recover the costs incurred by providing rice inspection services. AMS would use historical or prior year cost and workload data, along with applicable projections to generate estimates of future obligations and revenues. On the bases of these analyses and formulas, AMS would determine the rates necessary to sustain rice inspection program services. Using the formulas to calculate the fees, and reviewing the fees on an annual basis, would more accurately reflect the actual cost of providing inspection services each year and would provide greater transparency and predictability to the rice industry. AMS would publish the fees for each upcoming fiscal year in the annual AMS user-fee notice in the FEDERAL REGISTER by the preceding June 1. The yearly notice would include both the per-hour rates and the per-unit rates. Updated fees schedules would no longer appear in the Code of Federal Regulations but would be available on the AMS website.

#### *Calculations*

AMS proposes to base salary, hours, and most factors used in the proposed calculations on the prior year's actual costs, workload data, projection of expenses impacting program

costs, cost of living increase, and inflation. AMS would base cost of living increase and inflation factors on the most recent economic data released by the Office of Management and Budget (OMB) for budget development purposes. AMS would round the final rates up to make the amounts divisible by the quarter hour (15 minutes). Under the proposed rate formulas, the minimum charge for services covered by the inspection fee rates would be for 15 minutes. As explained later in this document, the applicant requesting inspection service would be charged travel costs on an actual basis. AMS chose to propose these formulas for rice inspection fees so they would be consistent with the formulas used agency wide in other AMS programs.

Currently, some rice inspection service fees are charged on a per hour basis, and some are charged on a per unit basis. AMS proposes to continue providing costs on both bases to maintain continuity. As well, AMS would provide the specific amounts used to calculate each year's rates upon request.

AMS proposes to add a new § 868.91(b)(1) to include the following formulas for calculating fee rates for FY 2022 and succeeding fiscal years.

- The regular rate is the Service's total grading, inspection, certification, classification, audit, or laboratory service program personnel direct pay divided by direct hours for the previous year, which is then multiplied by the next year's percentage of cost of living increase, plus the benefits rate, plus the operating rate, plus the allowance for bad debt rate.
- The overtime rate is the Service's total grading, inspection, certification, classification, audit, or laboratory service program personnel direct pay divided by direct hours for the previous year, which is then multiplied by the

next year's percentage of cost of living increase and then multiplied by 1.5, plus the benefits rate, plus the operating rate, plus the allowance for bad debt rate.

- The holiday rate is the Service's total grading, inspection, certification, classification, audit, or laboratory service program personnel direct pay divided by direct hours for the previous year, which is then multiplied by the next year's percentage of cost of living increase and then multiplied by 2, plus the benefits rate, plus the operating rate, plus the allowance for bad debt rate.

AMS further proposes to add a new § 868.91(b)(2) to include the following component formulas, which AMS would derive by using the previous year's actual costs/historical costs.

- The benefits rate is the Service's total inspection program direct benefits costs divided by the total hours (regular, overtime, holiday) worked, which is then multiplied by the next year's percentage of cost of living increase. Some examples of direct benefits are health insurance, retirement, life insurance, and Thrift Savings Plan (TSP) retirement basic and matching contributions.
- The operating rate is the Service's total inspection program operating costs divided by total hours (regular, overtime, and holiday) worked, which is then multiplied by the percentage of inflation.
- The allowance for bad debt rate is the total allowance for bad debt, divided by total hours (regular, overtime, holiday) worked.

Finally, AMS proposes to add a new § 868.91(b)(3), which would specify that AMS would use the most recently released OMB economic data to generate the cost of living and inflation factors used in the above formulas.

#### *Travel Expense*

One factor that may have contributed to the operating reserve buildup over time is the incorporation of an allowance for travel expenses in the current rice inspection fee rates that may not have reflected actual travel costs. AMS proposes to address this by specifying in the fee calculation formulas that travel expenses related to providing inspection services, such as commercial transportation costs, mileage, and per diem, would be based on actual travel costs incurred to perform the service. The fee rate calculations in proposed § 868.91(b) would specify that actual travel expenses for rice inspection services may be added to the cost of providing the service, consistent with current practice under most other AMS programs. This change would be applicable to fee rates beginning in FY 2022.

As a conforming change, AMS proposes to remove the language in § 868.92(a)(2) – Explanation of service fees and additional fees, which makes specific reference to the inclusion of travel expenses in the current rice inspection fee calculations, as that language would be obsolete.

#### *Delegation of Authority*

The Secretary of Agriculture delegated to the Under Secretary for Marketing and Regulatory Programs (MRP) authorities “related to grain inspection, packers and stockyards.” 7 CFR 2.22(a)(3)(i)-(vi). In 7 CFR 2.81, the Under Secretary for MRP further delegated these authorities to the Administrator of GIPSA. In a November 14,

2017, Secretary's Memorandum, the Secretary directed that the authorities at 7 CFR 2.81 be re-delegated to the Administrator of AMS, and that the delegations to the Administrator of GIPSA be revoked. The delegations to the Under Secretary of MRP related to grain inspection, packers, and stockyards at 7 CFR 2.22(a)(3) remain unchanged.

The AMS Administrator has authority to administer former GIPSA programs but does not currently have authority to revise the Code of Federal Regulations sections that pertain to grain inspections. MRP will address the transfer of such authority in a separate rulemaking. AMS expects to change the meaning of certain terms in § 868.1, such as "Administrator" and "Service," to reflect the change in management from GIPSA to AMS at that time.

#### **Executive Orders 12866, 13563, and 13771**

Executive Orders 12866 – Regulatory Planning and Review, and 13563 – Improving Regulation and Regulatory Review, direct agencies to assess all costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits of reducing costs, harmonizing rules, and promoting flexibility. This proposed rule does not meet the criteria of a significant regulatory action under Executive Order 12866 as supplemented by Executive Order 13563. Therefore, OMB has not reviewed this rule under those Orders. Additionally, because this proposed rule does not meet the definition of a significant regulatory action under Executive Order 12866, it does not trigger the

requirements contained in Executive Order 13771. See OMB’s memorandum titled “Interim Guidance Implementing Section 2 of the EO of January 30, 2017, titled ‘Reducing Regulation and Controlling Regulatory Costs’” (February 2, 2017).

AMS considered several alternatives to the changes in this proposed rule, including making larger decreases to the FY 2020 and FY 2021 rates to bring the reserve balance down more quickly or making a larger fee rate decrease for FY 2020 only. Ultimately, AMS determined that the proposed approach of making smaller – but still significant – reductions two years in a row before transitioning to the standardized fee calculations would be the alternative least disruptive to the industry while moving toward desirable reserve levels. AMS expects the proposed changes to benefit the rice industry by reducing rates by 20% for each of the next two years and then adjusting rates as needed annually thereafter to reflect actual expenses related to rice inspections. Under the proposed rule, rice inspection service users would likely enjoy further savings since most inspection sites are near FGIS field offices and charges for travel would be based on actual expenses rather than the standard flat amount incorporated into the current fee rates. AMS does not expect the proposed rule to provide any environmental, public health, or safety benefits. AMS has not identified any costs related to this proposed action.

### **Executive Order 12988**

This proposed rule has been reviewed under Executive Order 12988 – Civil Justice Reform. This rule is not intended to have retroactive effect. This rule will not preempt any State or local laws, regulations, or policies, unless they present an

irreconcilable conflict with this rule. No administrative proceedings would be required before parties could file suit in court challenging the provisions of this rule.

### **Congressional Review Act**

Pursuant to the Congressional Review Act (5 U.S.C. 801 *et seq.*), the Office of Information and Regulatory Affairs designated this rule as not a major rule, as defined by 5 U.S.C. 804(2).

### **Regulatory Flexibility Analysis**

Pursuant to the requirements set forth in the Regulatory Flexibility Act (RFA) (5 U.S.C. 601 – 602), AMS has considered the economic impact of this proposed action on small entities. The purpose of the RFA is to fit regulatory actions to the scale of businesses subject to such actions in order that small businesses will not be unduly or disproportionately burdened.

There are approximately 169 applicants who receive rice inspection services. AMS estimates 42 percent of these users would be considered small businesses based on criteria established by the Small Business Administration (13 CFR 121.201) to differentiate between large and small business entities. SBA uses the North American Industry Classification System (NAICS) to categorize various industry businesses. SBA defines small rice farmers, NAICS code 111160, as those whose annual receipts do not exceed \$750,000 and small rice millers, NAICS code 311212, as those with no more than 500 employees.

When the current rice inspection fees were set in 2007, an 18 percent increase was implemented to cover program deficits caused by increases in employee salaries and benefits, the replacement of aging rice inspection equipment, and upgrading the

information technology system used to generate certificates. The increase also was intended to create the operating reserve. However, as explained earlier in this document, revenues have continued to exceed expenditures, indicating that an adjustment to the fee schedule is now warranted. In addition, travel expenses were built into the hourly and unit fees currently charged by the program, resulting in higher than necessary revenues to cover the actual service provided.

Proposed changes to the fees would reduce the cost of rice inspections by 20 percent for all services in FY 2020 across the board, regardless of the business entity's size, for a projected savings of approximately \$1.17 million to the industry. A further 20 percent reduction as proposed for FY 2021 would net approximately \$2.13 million in savings to the industry. All entities using rice inspection services, large and small, would be expected to benefit from reduced expenses for these services. Savings would be proportionate to the number of inspection services an entity requests each year. Proposed adoption of standardized AMS user-fee rate calculations for FY 2022 and beyond would benefit all inspection applicants, regardless of size, as fees would more closely reflect the current cost of inspections, and the fee calculation process would be more transparent. Through its annual review, AMS would be able to monitor the financial status of the rice inspection program to determine whether further adjustments are necessary.

AMS has determined this proposed rule would not have a significant economic impact on a substantial number of entities as defined under the RFA because fewer than half the applicants for rice inspection services meet the definition of small entities. Further, rice inspection and weighing services are provided upon request, and rice industry businesses are under no obligation to use these services.

Finally, USDA has not identified any relevant Federal rules that duplicate, overlap, or conflict with this rule.

### **Paperwork Reduction Act and E-Government Act**

In compliance with the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35), the information collection and record keeping requirements of the rice inspection program have previously been approved by OMB under control number 0580-0013. No additional reporting, record keeping, or other compliance requirements would be imposed as a result of this proposed rule.

AMS is committed to complying with the E-Government Act (44 U.S.C. 3601, *et seq.*), to promote the use of the internet and other information technologies to provide increased opportunities for citizen access to Government information and services, and for other purposes.

### **List of Subjects in 7 CFR Part 868**

Administrative practice and procedure, Agricultural commodities.

For the reasons set out in the preamble, AMS proposes to amend 7 CFR part 868 as follows:

### **PART 868 – GENERAL REGULATIONS AND STANDARDS FOR CERTAIN AGRICULTURAL COMMODITIES**

1. The authority citation for part 868 continues to read as follows:

**Authority:** 7 U.S.C. 1621-1627.

2. Revise § 868.91 to read as follows:

#### **§ 868.91 Fees for certain Federal rice inspection services.**

The fees for services in paragraph (a) of this section apply to Federal inspection services. Starting with fiscal year 2022, calculations provided in paragraph (b) of this section will be used to determine annual fee rates.

(a) Fees for services are published on the Service's website.

(b) For each fiscal year, starting with 2022, the Administrator will calculate the rates for services, issue a public notice, and publish fees on the Service's website with an effective date of October 1 of each year.

(1) For each year, the Administrator will calculate the rates for services, per hour per inspection program employee using the following formulas:

(i) *Regular rate.* The Service's total inspection program personnel direct pay divided by direct hours, which is then multiplied by the next year's percentage of cost of living increase, plus the benefits rate, plus the operating rate, plus the allowance for bad debt rate. If applicable, actual travel expenses may also be added to the cost of providing the service.

(ii) *Overtime rate.* The Service's total inspection program personnel direct pay divided by direct hours, which is then multiplied by the next year's percentage of cost of living increase and then multiplied by 1.5, plus the benefits rate, plus the operating rate, plus an allowance for bad debt. If applicable, actual travel expenses may also be added to the cost of providing the service.

(iii) *Holiday rate.* The Service's total inspection program personnel direct pay divided by direct hours, which is then multiplied by the next year's percentage of cost of living increase and then multiplied by 2, plus the benefits rate, plus the operating rate,

plus an allowance for bad debt. If applicable, actual travel expenses may also be added to the cost of providing the service.

(2) For each year, based on previous year/historical actual costs, the Administrator will calculate the benefits, operating, and allowance for bad debt components of the regular, overtime, and holiday rates as follows:

(i) *Benefits rate.* The Service's total inspection program direct benefits costs divided by the total hours (regular, overtime, holiday) worked, which is then multiplied by the next year's percentage of cost of living increase. Some examples of direct benefits are health insurance, retirement, life insurance, and Thrift Savings Plan (TSP) retirement basic and matching contributions.

(ii) *Operating rate.* The Service's total inspection program operating costs divided by total hours (regular, overtime, and holiday) worked, which is then multiplied by the percentage of inflation.

(iii) *Allowance for bad debt rate.* Total allowance for bad debt, divided by total hours (regular, overtime, holiday) worked.

(3) The Administrator will use the most recent economic factors released by the Office of Management and Budget for budget development purposes to derive the cost of living expenses and percentage of inflation factors used in the formulas in this section.

**§ 868.92 [Amended]**

3. Amend § 868.92 by:

a. Removing paragraph (a)(2) and redesignating paragraphs (a)(3) through (5) as paragraphs (a)(2) through (4), respectively.

b. In newly redesignated paragraph (a)(4), removing “§ 868.92(c)” and adding “paragraph (c) of this section” in its place.

Dated: August 23, 2019.

Greg Ibach,

Under Secretary,

Marketing and Regulatory Programs.

BILLING CODE 3410-02P

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